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RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEKJCS/SECDEF WASHINGTON DC  
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SUBJECT: SINDH - KARACHI STOCK EXCHANGE HITS 33 MONTH LOW

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11. (SBU) Summary: Share values on the Karachi Stock Exchange (KSE) plunged to a 33-month low by the end of trading on August 27, to close at 9,144.93, down 285.36 points for the day. Despite media reports of civil unrest outside the exchange, police and KSE officials confirmed there was no violence and that KSE trading was not suspended. Political uncertainty and declining macroeconomic indicators were the major causes behind the rapid drop. Fearful of the potential impact on the economy and seeking to allow the financial system time to rebound, the KSE Board voted to make the level at August 27 close-of-trading the floor below which the KSE will not be allowed to go, at least for an unspecified period of time. End summary.

12. (SBU) On Wednesday, August 27, the Karachi Stock Exchange (KSE) 100 index closed at its lowest level since November 29, 2005 when it was at 9,135.54. The KSE 100 opened the day at 9,430.29 and was down as much as 430.93 points before rebounding to close at 9,144.93, down 285.36 points. The declining rupee value against major currencies kept most foreign traders on the sidelines. Total shares traded on August 27 were 94.43 million. The biggest declines of the day were posted by Siemens Pakistan, Jehangir Siddiqui, Shell Attock Oil Refinery, and Pakistan State Oil. According to a senior research analyst at Arif Habib Securities, the market decline was driven by political uncertainty, high interest rates, and declining macroeconomic indicators (including shrinking foreign exchange reserves). Per market guidelines, shares can only fluctuate by three percent before trading is frozen, which helped mitigate the August 27 decline.

13. (SBU) The KSE 100 has depreciated 41.6 percent since reaching an all time high of 15,676.34 on April 18, 2008. Although August 27 trading was not suspended and the KSE closed at normal closing (2:15 PM), Afridi told EconOff the KSE Board met for 11 hours on August 27-28 due to concerns over how the drop might impact the rest of the financial system. Attempting to "give the market time to recover," the Board determined to make the level at August 27 close-of-trading the floor below which the KSE would not be allowed to go. Afridi said he did not know how long this measure would be in place, but speculated it could last up to 15 days.

14. (SBU) Calling the price drop a "crisis of confidence," Afridi opined that the decline was the result of uncertainty over the country's political future, high oil prices, a declining rupee, and a perceived lack of government focus on economic issues. From a market standpoint, he said that many stocks are now significantly undervalued, with some selling for as little as two times their price-earnings ratio.

15. (SBU) Comment: In contrast to the July 17 (Reftel A) and August 4 (Reftel B) market drops, reaction to the market decline has thus far been mild. Although media reported disturbances at KSE, police told RSO, and KSE Managing Director Afridi confirmed, that there were no civil disturbances and the KSE was able to complete its normal business day without disruption by protestors. The market's decline is more evidence of lack of foreign investor confidence in Pakistan and wariness about its precarious economic situation (Reftel C). The Karachi business community accuses the GOP of allowing other issues, such as restoration of the judges, distract them from addressing issues such as the country's rising inflation rate, declining foreign reserves, and depreciating currency. A clear GOP public statement of economic policy would provide some comfort to investors, giving more indication that the GOP is not so focused on political issues that it will let the country's economy unravel.

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